`

(*University of Choice*)

**MASINDEMULIROUNIVERSITY OF**

**SCIENCE AND TECHNOLOGY**

**(MMUST)**

**MAIN,BUNGOMA,MUMIAS,BUSIA,NAIROBI,WEBUYECAMPUS**

**UNIVERSITY EXAMINATIONS**

**2018/2019 ACADEMIC YEAR**

**FIRST YEAR SEMESTER TWO EXAMINATION**

**FOR DIPLOMA**

**IN**

**BUSINESS MANAGEMENT**

**COURSE CODE:DIB 105 C 2**

# COURSE TITLE: FINANCIAL MANAGEMENT

**DATE:**  **TIME:**

### INSTRUCTIONS TO CANDIDATES

Answer QUESTION ONE and any OTHER TWO questions

TIME: 2 Hours

MMUST observes ZERO tolerance to examination cheating

This Paper Consists of 4 Printed Pages. Please Turn Over.

**QUESTION ONE**

1. “Finance is the life and blood of industry”. Elucidate the statement with suitable examples. (9marks)
2. Explain ‘risk and return analysis’ (3marks)
3. Describe the long-term sources of finance available to Alcatel Ltd for their expansion program. (6 Marks)
4. A company is considering an investment proposal to a new machine. The project cost is shs.5,000,000. The expected cash flows are given as below

Year Shs

1 1,000,000

2 1,200,000

3 1,500,000

4 1,400,000

5 2,500,000

The cost of capital is 10%. You are required to calculate the Net Present value and suggest whether the project should be accepted or not. (7marks)

1. (e) Discuss the factors to be considered in formulating the dividend policy of a stock-exchange listed company. (5mks)

**QUESTION TWO- 20 MARKS**

1. A company was recently formed to manufacture Keroro in mini markets. It has the following capital structure in market value terms:

Ksh

Equity shares 8,000,000

Preference shares 2,000,000

Debentures 6,000,000

Total 16,000,000

A study of companies in this line of business shows that the required rate of return on equity is 17%. The new company’s debt is currently yielding 13% and its preferred stock yields 12%

Required;

1. Weighted average cost of capital (9marks)
2. Explain the difference between marginal average cost of capital and weighted average cost of capital. (3marks)
3. Discuss the techniques of capital budgeting (8marks)

**QUESTION THREE– 20MARKS**

1. Koech has won a Christmas lottery and will receive the following inflows:

Year 1 shs 200,000

Year 2 shs 500,000

Total shs 700,000

1. If the interest rate is 6% compounded annually, what is the present value of the Christmas earnings? (3marks)
2. If the interest rate is 6% compounded semi-annually, what is the present value of the Christmas earnings? (3marks)
3. Explain THREE reasons why there is preference for current money rather than money in future. (6marks)
4. ‘Shareholders sometimes resist ploughing back of profits’. Comment on the statement giving implications. (8marks)

**QUESTION FOUR**

1. Clearly discuss the ‘Agency problem’ existing in companies giving the relevant solution. (7marks)
2. Explain the importance of cost of finance to the firm. (3marks)
3. The financial manager of manifested technologies wishes to determine the expected rate of return and the standard deviation as an indicator of the investment total risk from a proposed investment project. The expected returns from the project are related to the future performance of the economy over the period as follows:

|  |  |  |
| --- | --- | --- |
| ECONOMIC SCENARIO | PROBABILITY OF OCCURENCE | RATE OF RETURN |
| Strong growth | 0.25 | 15% |
| Moderate growth | 0.5 | 12% |
| Low growth | 0.25 | 8% |

Calculate

1. The expected return (3mks)
2. The total investment risk (7mks)

**QUESTION FIVE**

1. “A credit policy should be neither too much liberal nor too much stringent”. Elucidate (6marks)
2. Explain FIVE factors that influence working capital needs of a company. (10marks)
3. Discuss the ratios used to measure a manager’s effectiveness (4marks)